



## On Second Thought

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### Internal controls: Fire Prevention 101

**Y**ou're at your desk all day, but you're a firefighter. Those working in trade compliance know what I mean—your day is a sprint from start to finish, managing

reoccurring issues and solving urgent problems. The morning may consist of quashing minor blazes by clearing customs holds due to classification errors, resolving restricted party screening matches, and performing license determinations. The afternoon may be spent extinguishing four-alarm situations in valuation, preferential claims, and reviewing correspondence from a surprise government "outreach visit." It seems that these daily issues are inescapable, preventing you from proactively addressing compliance concerns within your company. For example, when was the last time you discussed how to reliably automate trade compliance tasks or met with your R&D/product management team to review the design of next-generation products?

Your local fire department preaches fire prevention, so why not you? If days like this are the norm, you are doing both yourself and your company a disservice. The urgent issues described above all have in common the kindling for a corporate inferno: An absence of assignment of responsibility, a dearth of standards, and a deficiency in company-wide awareness of trade compliance concepts. The missing piece that bridges trade compliance with corporate goals—a smoke detector, if you will—is an overarching Internal Controls Program (ICP) that guides decision making and sounds a virtual alarm so that such fires never start or are extinguished immediately and only once. A solid ICP features a clear scope supported by senior executives, defines concepts and responsibilities related to customs and export compliance, and provides the infrastructure to draft policies, procedures, and training that help fulfill corporate goals without running afoul of trade regulations.

When developing the scope of your ICP, ensure that it's focused specifically on trade-related responsibilities, yet scal-

able to your company's global operations. Document the program as a handbook and deliver it to all employees via publication on the corporate intranet. Anticipate the handbook will be a lengthy, living document as it narrates the roles, responsibilities, and concepts of trade compliance, while remaining flexible enough to respond to the evolution of the company.

Support from senior leadership is essential to your ICP. Accountability and responsibility lack authority and success without executive buy-in. As government authorities look favorably upon companies with an ICP, use this to secure a written statement of corporate commitment to compliance from an executive. Document the statement in the ICP handbook, cascade it throughout the organization, and use it as the foundation for drafting trade-related policies and procedures.

A good test of internal controls is to determine if your program properly aligns responsibilities among seemingly unrelated job functions. Some examples: Order management must input complete transactional information into a company's ERP system so this data is useful for export screening; R&D/product management must share product roadmaps with trade compliance and advise of any function/feature/sourcing modifications so that such things as classification, country of origin, and export licenses can be assigned and secured; and finance must team with trade compliance to establish valuation methodologies appropriate for customs purposes.

Now that you have corporate-wide attention that everyone contributes to compliance be sure to thoroughly explain compliance concepts relevant to your company within the ICP handbook. Do not overlook programs impacting global trade such as corporate audit, records retention, engaging third party partners, and communications with government agencies. Your

colleagues cannot be effective if they do not understand a concept and how it relates to their job function and daily procedures. Implement a training program for the non-trade professionals in your company to reinforce these concepts.

Central to any ICP are the corporate level trade-related policies and procedures. These standalone documents, published separately from the ICP handbook, describe compliance requirements applicable to each location where your company conducts business.

Recalling the first paragraph, here's how an ICP prevents a company from fanning the flames of daily hotspots:

- An ICP outlines standards with third parties. Statements of work can require third parties to use only classification furnished by your company. This prevents customs holds and reclassification efforts.

- An ICP specifies responsibilities. "Outreach visits" and non-routine government communications should be handled directly by trade compliance rather than personnel unfamiliar with the complexities of customs and export compliance.

- An ICP sets the foundation for policies and procedures. Policies and procedures must be clear, executable, and foolproof. Without sound procedures, daily work and trade automation initiatives risk blind perpetuation of errors.

- An ICP educates personnel on key trade compliance topics. Training and awareness of key topics averts both small-scale problems and large-scale audits.

- An ICP makes clear compliance is everyone's responsibility. Inter-departmental communication is a must in ensuring a company can fulfill its goals.

A focused program that identifies concepts and responsibility, trains personnel, and delivers corporate standards paves the way to the long-term success of both your trade compliance team and your company. In the spirit of Smokey the Bear take the initiative to build and document an ICP because, "Only you can prevent wildfires."

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